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KAZIMI, HANI M

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1 UNITED STATES PATENT AND TRADEMARK OFFICE

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4 BEFORE THE BOARD OF PATENT APPEALS
5 AND INTERFERENCES
6

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8 *Ex parte* SCOTT C. HARRIS
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11 Appeal 2007-0325
12 Application 09/780,248
13 Technology Center 3600
14

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16 Decided: January 13, 2009
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19 Before ROBERT E. NAPPI, LINDA E. HORNER, and ANTON W. FETTING,
20 *Administrative Patent Judges.*

21 FETTING, *Administrative Patent Judge.*

22 DECISION ON REQUEST FOR REHEARING
23

24 The Appellant filed a REQUEST FOR RECONSIDERATION OF APPEALS
25 DECISION UNDER 37 C.F.R. § 1.52 on June 12, 2007.

26 The Examiner rejected claims 5-7, 9-11, 15-30, 32, and 33. We affirmed those
27 rejections in part and entered a new ground of rejection under 37 U.S.C. § 101
28 against claims 5-7 and 28-32 in our Decision mailed April 16, 2007. The Appellant
29 seeks reconsideration of the new ground of rejection only¹. Exemplary
30 independent claims 5, 28 and 32 are reproduced below.

¹ The Appellant does not request reconsideration of any prior art rejections (Request 2: Second to last ¶).

1 5. A method, comprising:

2 allowing each of accepting bids from a plurality of users to
3 submit bids for a specified item being auctioned, said bids being
4 submitted from any of a number of clients over a network to a server
5 which collects said bids; and

6 defining rules for actions in said auction, said rules including at
7 least a time when the action will take place, and an actual action that
8 will take place at the defined time; and

9 keeping the rules secret until the defined time.

10
11 28. A method comprising:

12 conducting an auction over a network by accepting bids for
13 items, and establishing a highest bid for an item as being a winning
14 bid; and

15 treating a bid received within a predetermined period of time
16 before an end time of an auction less favorably than bids received
17 prior to said predetermined period.

18
19 32. A method comprising:

20 conducting an auction over a network by accepting bids for
21 items, and

22 establishing a highest bid for an item as being a winning bid;

23 determining identities of bidders bidding during said
24 conducting; and

25 treating a bid from bidders whose identities have not been
26 determined by said determining, and which bids are received within a
27 predetermined period of time before an end time of an auction, less
28 favorably than bids received prior to said predetermined period.

29
30 We DENY the REQUEST FOR REHEARING.

ISSUE

The issue pertinent to this request is whether the Appellant has sustained its burden of showing that we erred in entering a new ground of rejection of claims 5-7 and 28-32. 37 C.F.R. 41.52(a)(3).

The pertinent issue turns on whether a process whose steps are allowing each of a plurality of users to submit bids for a specified item being auctioned; defining rules for actions in the auction, those rules including at least a time when the action will take place, and an actual action that will take place at the defined time; and keeping the rules secret until the defined time while conducting an auction is statutory where the channel of communication is a network in the context of conducting an auction.

ANALYSIS

We found in our decision that claims 5-7 and 28-32 were directed to non-statutory subject matter because they were drawn to manipulation of abstract ideas. (Decision 20-22).

The Appellant argues that the claims are drawn to an auction process and that such a process is more than the manipulation of abstract ideas (Request 6: ¶ II).

The Appellant contends that our conclusions that these claims define abstract ideas are legally incorrect (Request 4: ¶ I), and that the process is statutory under additional tests (Request 10: ¶ III). The Appellant proposes a new test (Request 14: ¶ IV) and argues that congressional policy was to afford a very wide scope to patentable subject matter (Request 15: ¶ V).

We begin by pointing out that exemplary claim 5 contains only three steps, which include allowing the acceptance of bids; defining rules; and keeping those

1 rules secret. Claim 5 does not define an auction process, but only purports to recite
2 three steps which might be incorporated in an auction process. Claim 5 recites
3 nothing that produces any result from such bids and rules.

4 Exemplary claims 28 and 32 recite conducting an auction over a network by
5 accepting bids; establishing a highest bid for an item as being a winning bid;
6 establishing identities of bidders, and treating a bid received within a
7 predetermined period less favorably than other bids. Thus claims 28 and 32 accept
8 bids, establish a high bid, identify bidders, and treat certain bids less favorably than
9 others. Neither of these claims recites anything that produces any result from such
10 bids and rules.

11 In our decision, we found that claims 5-7 and 28-32 accept bids, determine
12 who the bidders are, and define rules, and concluded that these claims are directed
13 toward no more than the idea of conducting an auction with auction rules and bids.
14 They produce no useful, concrete and tangible result because they are not
15 instantiated within a physical embodiment that results in the transfer of property of
16 an actual auction.

17 We acknowledged the limitations to a network in claims 5-7 and 28-32, but
18 found they do no more than create the illusion of physicality in some
19 embodiments, which merely attempts to exalt form over substance. We found that
20 even to convey a representation of an abstraction over an electronic network is still
21 no more than manipulating an abstraction. We further found that the limitation of
22 a network was not further narrowed to electronic networks, and that societal
23 networks of auction houses (e.g. Christies, from 1766), that convey bids are too
24 notoriously old and well known to so narrowly construe this term.

Argument regarding legal error

The Appellant's assertion of legal error is premised on his argument that we cited *In re Warmerdam*, 33 F.3d 1354 (Fed. Cir. 1994) for the proposition that *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) is incorrect (Request 4: Second to last full ¶). We did not so propose and made no reference to *Chakrabarty*.

The Appellant goes on to argue that our reliance on *Diamond v. Diehr*, 450 U.S. 175 (1981), was misplaced because that case related to principles rather than abstract ideas (Request 4: Last full ¶). To the contrary, *Diehr* states that "when a claim recites a mathematical formula (or scientific principle or phenomenon of nature), an inquiry must be made into whether the claim is seeking patent protection for that formula in the abstract." *Id.* at 191. Accordingly, *Diehr* simply stated that mathematical formulae are abstract ideas and listed those abstract ideas such as formulae along with scientific principles and phenomena of nature as subjects that are not statutory subject matter. The Appellant essentially acknowledges this further in the Request at 9-10 where the Appellant states that *Diehr* supported the denial of patents to more than just principals, including denial to a new mineral, a scientific idea, a mathematical formula or mental operation.

The Appellant concludes this argument of the legal analysis in our Decision with a contention that an idea is the opposite of an embodiment (Request 5:Bottom ¶). Such an observation does little to demonstrate that the claims at issue actually recite a statutory embodiment. The Appellant simply argues that "[h]ere, a method is claimed. It is not an abstract idea, but rather a fully-functioning, concrete, definite and complete method." (*Id.*) Such an argument is simply conclusory and does not evidence that the method is statutory.

Argument regarding abstract ideas

The Appellant's support for construing claim 5 to be an embodiment is the phrase "over a network," and for construing claims 28 and 32 similarly is the phrase "conducting an auction over a network."²

These phrases are the Appellant's support based on the claim limitations for arguments II (the claims are not toward abstract ideas) and III (concrete, useful and tangible, and transformation to different state are not exclusive tests) (Request 6-12). The Appellant does not contend that the claim 5 steps of allowing the acceptance of bids; defining rules; and keeping those rules secret or the claim 28 and 32 steps of accepting bids, establishing a high bid, identifying bidders and treating certain bids less favorably than others are evidence of statutory subject matter other than their being within the context of an auction over a network. Thus, the issues before us are whether a step of allowing bids over a network and a step of conducting an auction and doing so over a network demonstrate the claims at issue are statutory.

We begin by finding that the only steps recited for conducting an auction are those we found *supra*. Claims 28 and 32 call for conducting, not completing an auction. Thus, any step, such as submitting bids, that is part of the conduct of an auction describes conducting an auction.

² The Appellant also argues the use of the term "internet" (Request 8: First full ¶), but that term does not appear in the claims at issue.

1 The Appellant contends such conduct is a real process and is therefore statutory
2 (Request 7-8). The Appellant also argues that the claims are directed to an internet
3 auction (Request 7:First ¶). However the term “internet” is not in any of the
4 claims. In fact, the claims do not specify an electronic network. Thus, the claims
5 encompass auctions performed by any types of networks, including the networks
6 of interaction between people at auction houses, such as Christies.

7 The Appellant argues that any such business operation is evidence that the
8 claims are drawn to real as contrasted with abstract subject matter (“This billion
9 dollar business model is certainly not an ‘illusion.’” Request 7:Third ¶). This is the
10 whole argument against the claims being drawn to abstract ideas, i.e. major
11 businesses are built on auctions, so any claim that includes conducting an auction
12 must be statutory.

13 This argument does not account for the actual scope of the step of conducting
14 an auction. The scope is undefined. If the scope includes instances in which the
15 only conduct is the reception and treatment of bids, because no complete
16 transaction occurs in such instances, there is no concrete and tangible result.
17 Because any step that nominally would be part of an auction process is sufficient to
18 be this step, the scope would include such instances. Certainly the remaining steps
19 in claims 28 and 32 are sufficient to constitute conducting an auction. Thus, the
20 step of conducting an auction over the internet does no more than choose a
21 network as a vehicle for communication for the remaining bid reception and
22 treatment steps in those claims. These steps manipulate bids and do not result in a
23 transfer of property or a transformation. There is nothing physical about bids per
24 se. *In re Schrader*, 22 F.3d 290, 293-94, (Fed. Cir. 1994). The Appellant attempts
25 to distinguish *Schrader* by arguing again the conduct of an auction over a network
26 and the steps of identifying parties and highest bids (Request 9:Top ¶). But

1 identifying parties and establishing high bids are not physical steps either. And,
2 again, simply choosing a network as a vehicle for communication as the sole
3 purported physical limitation, particularly where the network is not narrowed to an
4 electronic network, is simply exalting form over substance. The choice of a
5 network for communication is inconsequential to the operation of the remaining
6 limitations.

7
8 *Argument regarding statutory subject matter tests*
9

10 Appellant's argument regarding the tests for statutory processes (Request 10: ¶
11 III), Appellant's proposed new test (Request 14: ¶ IV) and both our and the
12 Appellant's analysis of *State Street Bank & Trust Co. v. Signature Fin. Group Inc.*,
13 149 F.3d 1368 (Fed. Cir. 1998), have been overtaken by events, notably an en banc
14 decision from our reviewing court in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).
15 In *Bilski*, our reviewing court held that the machine-or-transformation test,
16 properly applied, is the governing test for determining patent eligibility of a
17 process under § 101. *Id.* at 956. The court also termed the useful, concrete and
18 tangible test standing alone as inadequate.

19 But while looking for "a useful, concrete and tangible result" may in
20 many instances provide useful indications of whether a claim is drawn
21 to a fundamental principle or a practical application of such a
22 principle, that inquiry is insufficient to determine whether a claim is
23 patent-eligible under § 101. And it was certainly never intended to
24 supplant the Supreme Court's test. Therefore, we also conclude that
25 the "useful, concrete and tangible result" inquiry is inadequate and
26 reaffirm that the machine-or-transformation test outlined by the
27 Supreme Court is the proper test to apply.

1 *Id.* at 959-960. This machine-or-transformation test is one of determining whether
2 a process (1) is tied to a particular machine or apparatus, or (2) transforms a
3 particular article into a different state or thing. *Id.* at 954.

4 We apply the machine-or-transformation test, as described in *Bilski*, to
5 determine whether the subject matter of process claims 5-7 and 28-32 are patent-
6 eligible under 35 U.S.C. § 101.

7 Process claims 5-7 and 28-32 recite a series of process steps that are not tied to
8 a machine. In other words, these claims do not limit the process steps to any
9 specific machine or apparatus. Although both claims refer to submitting bids and
10 conducting an auction over a network, the claims do not specify an electronic as
11 contrasted with societal network. Similarly, the reference to submitting bids to a
12 server in claim 5 within an auction context is not limited to an electronic server, as
13 any auction staff collecting such bids would be (human) servers. Thus, the claims
14 fail the first prong of the machine-or-transformation test because they are not tied
15 to a particular machine or apparatus.

16 Even if the network and server in those claims were construed as electronic, the
17 claims would still fail the first prong. Were the recitation of a “network” and
18 “server” in combination with purely functional recitations of method steps, where
19 the functions are implemented using an unspecified algorithm, sufficient to
20 transform otherwise unpatentable method steps into a patent eligible process, this
21 would exalt form over substance and would allow pre-emption of the fundamental
22 principle present in the non-machine implemented method by the mere recitation
23 of a “network” and “server.” Such a field-of-use limitation of communication
24 channels is insufficient to render an otherwise ineligible process claim patent
25 eligible. *Id.* at 957, citing *Diehr*, 450 U.S. at 191-92 (noting that eligibility under

§ 101 “cannot be circumvented by attempting to limit the use of the formula to a particular technological environment.”). Again, the claims fail the first prong of the machine-or-transformation test because they are not tied to a particular machine or apparatus.

The steps of process claims 5-7 and 28-32 also fail the second prong of the machine-or-transformation test because the data does not represent physical and tangible objects.³ Rather, the data represents information about bids, which are intangible communications. Thus, the processes of claims 5-7 and 28-32 fail the machine-or-transformation test and are not patent-eligible under 35 U.S.C. § 101.

For the above reasons we are not convinced of reversible error in our decision. Accordingly, the Appellant’s request for rehearing is denied,

DECISION

To summarize, our decision is as follows:

- We have considered the REQUEST FOR REHEARING
- Pursuant to 37 C.F.R. § 41.50(b), we maintain the following new grounds of rejection from our Decision:
 - Claims 5-7 and 28-32 remain rejected under 35 U.S.C. § 101 as being directed toward non-statutory subject matter.

No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a) (2006).

³ Because the data does not represent physical and tangible objects, we need not reach the issue of whether mere calculation of a number based on inputs of other numbers is a sufficient “transformation” of data to render a process patent-eligible under § 101.

Appeal 2007-0325
Application 09/780,248

DENIED

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